HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA

CANADA MORTGAGE AND HOUSING CORPORATION

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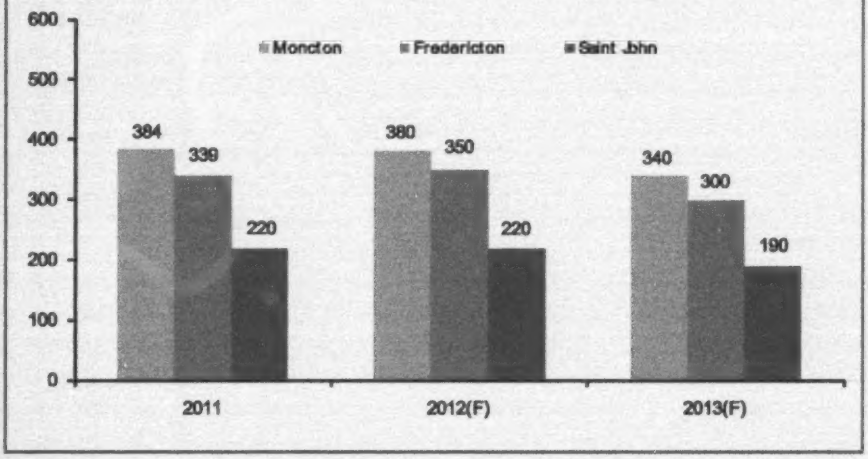
Limited Economic Growth to Impact Housing Demand

After the first three quarters of 2012, the outlook for economic growth in New Brunswick has weakened compared to previous forecasts, in part due to slower economic growth south of the border in the United States, New Brunswick's largest trading partner.

The lingering downturn in new home construction in the United States continues to have a negative impact on the forestry sector in New Brunswick. However, recent encouraging signs of improvement could help to stabilize and support a moderate recovery to the forest sector in the near term. As a result, the forestry sector's contribution towards economic growth in New Brunswick will be positive but marginal unless a stronger

Figure 1

Single Starts - Moncton, Fredericton and Saint John



Source: CMHC

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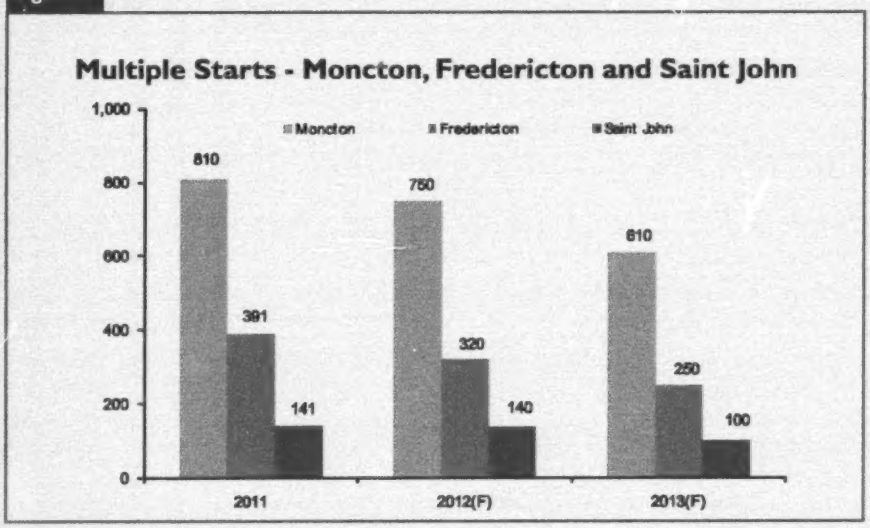
Figure 2



Source: CMHC

recovery occurs in the United States. Consequently, the provincial government continues to focus on opportunities related to other natural resources. The recent expansion of potash production in the Sussex area is expected to have a positive impact on economic growth in the near term. Furthermore, plans to review existing royalty agreements are expected to benefit provincial coffers.

In recent years, public sector investment in the province was increasingly called upon to generate economic growth in an effort to offset the downturn in demand for commodities. After several large deficits during the economic downturn, fiscal restraint became one of the main themes of the 2012-2013 provincial budget. A combination of program reductions and increased revenues aimed at eliminating annual deficits by 2014-2015 will result in reduced public sector expenditures over the forecast period.

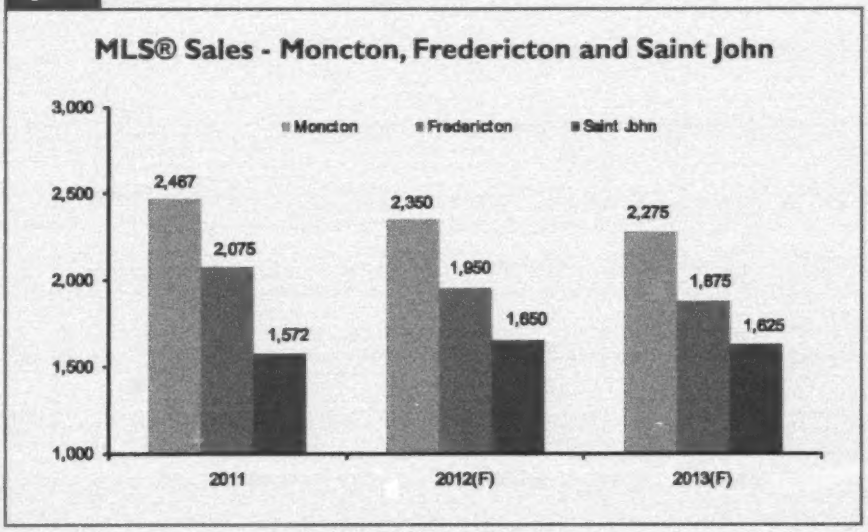
The effects of reduced investment in both the public and private sectors have been felt in the provincial job market as overall employment, having peaked in 2009, established a mild downward trend in recent years. In addition to fewer jobs, the labour force in the province has also experienced a downtrend trend, in part due to an increase in out-migration to Western Canada. Provincially, employment levels are expected to decline in both 2012 and 2013. The subsequent impact of reduced employment levels will be felt in the housing market over the forecast period. Provincial housing starts are projected to decline from 3,452 in 2011 to 3,300 units in 2012 followed by a further decline to 2,975 units in 2013.

Mortgage Rates

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth

Figure 3



Source: Canadian Real Estate Association (CREA), CMHC Forecast
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prospects in 2013.

Residential Construction to Decline

In Greater Moncton, total housing starts in 2012 are expected to exceed last year's annual total, driven mostly by the continued expansion of the local rental inventory. Apartment starts in the Moncton CMA will exceed 500 units in 2012. Since 1980, annual apartment starts have only exceeded 500 units in Moncton once and 400 units on three occasions. Two of those were 2010 and 2011 with 454 and 415 apartment starts, respectively. As a result, between 2010 and 2012, over 1,400 new apartment units will have been added to the local rental universe, which is significantly above average for a three year period. While population growth has been strong in the area over the past decade, the supply of new apartment units has grown faster than demand. As such, upward pressure exerted on the vacancy rate will lead to fewer apartment starts in 2013 and 2014.

Semi-detached units have remained a key component of the Greater Moncton housing market in 2012. As was the case in the rental market, the supply of new semi-detached units has been rising faster than demand, leading to a large supply of new units listed for sale. At the current pace of construction, the number of semi-detached starts in 2012 will be comparable to the annual average of 360 units recorded during the past three years. In addition, the average price of a new semi-detached unit has moved up significantly in recent years as consumers increasingly seek value-added features when shopping for a new home. Higher prices will create challenges for some first-time homebuyers and likely will impact demand for these units. The growing supply of available units and rising prices are expected to contribute to a moderate decline in starts in 2013.

Single-detached starts have been trending down in Greater Moncton since 2003, as residential housing starts in the CMA have gradually shifted towards increased multi-residential construction. The widening gap between the cost of a new home and the average price of an existing home has steered some potential homeowners to the resale market, thereby contributing to reduced single-detached starts. Look for single starts to decline to 380 units in 2012, followed by a further decline to 340 units in 2013.

In Saint John, new home construction, after the first nine months of the year, has kept pace with last year's totals. Residential construction activity, however, had declined significantly in 2011, following a five-year period when housing starts were well above the long-term annual average level. During the past decade, economic growth in Saint John has been closely linked to the expansion of the energy sector, with several large-scale capital projects serving as the region's main economic driver. Throughout most of this period, activity in the local housing market reflected the economic growth generated by the expansion of the energy sector. With no new energy sector projects launched or on the horizon, housing starts in 2011 returned to the average level observed in the 1990's, a trend that has been maintained in 2012 and is expected to remain over the forecast period.

Compared to New Brunswick's other large urban centres, population growth has been limited in Saint John, a phenomenon that has been particularly felt in the rental market. Last year, apartment starts reached 80 units in the Saint John CMA. Despite the limited expansion of the local rental universe, the vacancy rate in Saint John was the highest among the New Brunswick's three large urban centres. By the end of 2012, apartment starts are expected to compare favorably to the ten-year annual average of 115 units. The resulting increase in supply will keep the vacancy rate relatively high in Saint John. As such, expect a moderate decline in apartment starts in 2013 and total multiple starts over the forecast period. Single starts, which posted the lowest total in over a decade in 2011, are expected to remain relatively unchanged with 220 units in 2012, followed by subsequent decline in 2013 to 190 units.

In 2012, residential construction activity in Fredericton has trailed the pace set last year due mostly to fewer multiple starts. In recent years, multi-residential construction, most notably in the rental market, bolstered total housing starts in New Brunswick's Capital Region. Despite the expansion of the local rental universe, the vacancy rate recorded in Fredericton last fall was the lowest in the province at 2.6 per cent. The rate was essentially unchanged from the 2.5 per cent recorded one year earlier even though apartment starts in the region were significantly higher than the ten-year average. The buildup in apartment units over the past two years, however, is expected to push the vacancy rate towards the three per cent mark in the fall of 2012. Given the rising vacancy rate and the above average level of activity recorded in recent years, a moderate decline in apartment starts is expected in 2013. Single starts, which have followed a downward trend since 2008, are also expected to decline over the forecast period as supply and

demand continue to move towards a sustainable balance, with starts expected to reach 350 and 300 units in 2012 and 2013, respectively.

Fewer MLS® Sales Expected in Large Urban Centres

After the first nine months of 2012, MLS® sales in Greater Moncton were down eight per cent compared to the same period last year. Looking forward to next year, this trend will be maintained, with a further decline in MLS® sales ranging between two and four per cent as a weaker job market negatively impacts resale activity. The average MLS® sale price has also followed a downward trend in 2012, with a 1.5 per cent, year-over-year decline as of the end of September. For 2013, the average MLS® sale price is expected to remain relatively unchanged, with the possibility of a further decline ranging between 0.5 and 1.5 per cent. For 2012 and 2013, expect the average MLS® sale price to reach $156,750 and $156,000, respectively.

In Saint John, MLS® sales have generally trended downwards after reaching a record high in 2007. Last year, after four consecutive declines, the number of MLS® sales in Greater Saint John was approximately 30 per cent lower than the 2007 peak. In 2012, MLS® sales to the end of September have rebounded as the level of activity more accurately reflects demand for existing homes. This year's upward momentum, however, is not expected to extend into 2013. After posting 1,572 MLS® sales last year, the number of units sold is expected to rise to 1,650 units in 2012, followed by a slight decline to approximately 1,625 units in 2013. Declining MLS® sales in Saint John muted price growth in both 2010 and 2011. Despite the solid performance in MLS® sales during the first three quarters of 2012, the average MLS® sale price was down approximately two per cent from the previous year's total for the same period. With reduced sales expected in 2013, a similar decline in the average MLS® sale price is anticipated.

In 2012, the trends in resale market activity have been mixed in Fredericton as average prices increased while sales decreased. During the first three quarters of the year, Fredericton has experienced strong price growth of five per cent, while sales were down approximately nine per cent during the same period. For the remainder of 2012 and 2013, the downward trend in MLS® sales is expected to remain as economic growth throughout the province remains weak. As a result, expect 1,950 MLS® sales at the end of this year, and 1,875 units in 2013. With reduced sales and a large supply of available homes, price growth is expected to moderate over the forecast period, with the average MLS® sale price reaching $177,500 and $181,000 in 2012 and 2013, respectively.

Vacancy Rates to Rise in Some Provincial Centres

In the Moncton CMA, the significant expansion of the local rental universe resulting from construction activity during the past three years will exert upward pressure on the local vacancy rate over the forecast period. As a result, expect the local vacancy rate to range between 6.2 and 6.8 per cent in the fall of 2012, with a further increase in 2013.

Having posted the highest total of New Brunswick's three large urban centres last year, the vacancy rate is expected to remain relatively high in Saint John. A moderate increase from last fall's rate of 5.9 per cent is expected, with the 2012 vacancy rate anticipated to range between 6.8 and 7.5 per cent. The modest expansion of the local rental universe in recent years is expected to lead to a slightly lower vacancy rate in 2013.

In Fredericton, strong construction activity has resulted in the steady expansion of the local rental universe in recent years. Despite the fact Fredericton had the lowest vacancy rate in the province last year, the increase in supply during the second half of 2011 and in 2012 is likely to exert upward pressure on the local vacancy rate. Expect the local vacancy rate to be between 2.8 and 3.4 per cent in 2012. A further moderate increase is anticipated in 2013.

In each of New Brunswick's three major urban areas, expect the increase in the average rent for a two-bedroom unit to range between two and three per cent in both 2012 and 2013.

Forecast Summary Saint John CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,986	1,751	1,572	1,650	5.0	1,625	-1.5
MLS® New Listings	4,289	3,888	3,986	4,100	2.9	3,750	-8.5
MLS® Average Price ($)	171,026	171,104	170,354	168,000	-1.4	167,500	-0.3
New Home Market							
Starts:							
Single-Detached	369	345	220	220	0.0	190	-13.6
Multiples	290	308	141	140	-0.7	100	-28.6
Starts - Total	659	653	361	360	-0.3	290	-19.4
Average Price ($):							
Single-Detached	282,652	277,325	315,414	298,000	-5.5	300,000	0.7
Median Price ($):							
Single-Detached	251,000	265,000	275,000	265,000	-3.6	267,500	0.9
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	3.3	1.5	0.6	1.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	3.6	5.1	5.9	7.0	1.1	6.5	-0.5
Two-bedroom Average Rent (October) ($)	644	645	670	680	-	695	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	66,100	64,000	64,700	64,000	-1.1	63,500	-0.8
Employment Growth (%)	3.8	-3.2	1.1	-1.1	-	-0.8	-
Unemployment rate (%)	5.8	7.6	6.5	6.6	-	6.8	-
Net Migration (N.B.)	1,881	2,381	670	200	-70.1	0	-100.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Moncton CMA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,386	2,402	2,467	2,350	-4.7	2,275	-3.2
MLS® New Listings	4,195	4,127	4,388	4,400	0.3	4,250	-3.4
MLS® Average Price ($)	150,135	152,251	158,561	156,750	-1.1	156,000	-0.5
New Home Market							
Starts:							
Single-Detached	430	462	384	380	-1.0	340	-10.5
Multiples	543	938	810	750	-7.4	610	-18.7
Starts - Total	973	1,400	1,194	1,130	-5.4	950	-15.9
Average Price ($):							
Single-Detached	226,921	257,320	276,730	288,000	4.1	292,500	1.6
Median Price ($):							
Single-Detached	209,900	239,000	249,900	252,500	1.0	254,000	0.6
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	3.3	1.5	0.6	1.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	3.8	4.2	4.3	6.5	2.2	7.0	0.5
Two-bedroom Average Rent (October) ($)	675	691	715	730	-	745	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	72,700	70,900	71,400	74,000	3.6	73,000	-1.4
Employment Growth (%)	0.1	-2.5	0.7	3.6	-	-1.4	-
Unemployment rate (%)	6.2	7.0	7.5	7.0	-	7.2	-
Net Migration (N.B.)	1,881	2,381	670	200	-70.1	0	n/a

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Fredericton CA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,166	2,086	2,075	1,950	-6.0	1,875	-3.8
MLS® New Listings	4,406	4,461	4,647	4,750	2.2	4,500	-5.3
MLS® Average Price ($)	159,219	165,175	170,563	177,500	4.1	181,000	2.0
New Home Market							
Starts:							
Single-Detached	403	370	339	350	3.2	300	-14.3
Multiples	352	324	391	320	-18.2	250	-21.9
Starts - Total	755	694	730	670	-8.2	550	-17.9
Average Price ($):							
Single-Detached	245,269	245,486	258,868	258,000	-0.3	262,500	1.7
Median Price ($):							
Single-Detached	239,000	239,000	250,000	248,000	-0.8	251,000	1.2
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	3.3	1.5	0.6	1.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	2.3	2.6	2.5	3.0	0.5	3.5	0.5
Two-bedroom Average Rent (October) ($)	719	734	745	760	-	775	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	52,625	53,275	50,750	49,750	-2.0	49,000	-1.5
Employment Growth (%)	0.0	1.2	-4.7	-2.0	-	-1.5	-
Unemployment rate (%)	5.5	5.5	6.5	6.7	-	6.9	-
Net Migration (N.B.)	1,881	2,381	670	200	-70.1	0	n/a

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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